

The impact of recession on food & drink (2009)



In early 2007 The Brand Nursery identified three 'New Food Drivers' – consumer behaviour drivers that we believed would strongly influence food and drink purchase over the coming years. We termed them 'Virtuous', 'Crafted' and 'Tailored'.

In 2009, two years on, and with the clouds of recession encamped over the country it seemed a good time to re-visit the drivers, and to examine whether they're still influencing purchase decisions. At the same time it made sense to assess the impact these current economic difficulties are having on the grocery marketplace, and how brands and products can prepare to turn the corner towards recovery.

1. How the recession has impacted on the food & drink sector
2. How the recession has impacted the 'new food drivers' (including the emergence of a new 'driver')
3. Implications for the future – recovering from recession

1. How the recession has impacted on the food & drink sector

How quickly things can change

Reviewing Nielsen's 2008 'State of the Nation' report I had to stop myself and check that I was reading it correctly – so many of the insights referred to increasing preparedness amongst consumers to pay more for ethical, environmental and social benefits, whilst their propensity to search out promotions and lowest prices were reported to have declined.

And then I twigged – the data that was on display was from November 2007. Not a lifetime away, but a whole lot had happened in that past year to change the mood of the country.

While 'Northern Rock' got a brief mention, and there were hints of some nervousness about the macro-economic future, most of the individuals responding to Nielsen's study appeared to have few concerns about their personal savings or job security.

Some of the implications of the recession were already too obvious – reduced job security, reduced discretionary spend (either by necessity or caution), increased unemployment, reduced savings, property and pension value, and so on. An unpleasant, unsettling litany.

But what about the impact on purchase of food and drink? How will the recession impact on own label and on branded goods? Which sectors stand to lose the most, and which (if any) will gain? And what about the three 'New Food Drivers' – are they still valid, or have they changed?

Every Cloud Has A Silver Lining?

On the face of it the general impact of the recession on the grocery sector should be obvious, shouldn't it?

- A shift towards 'value' lines
- Stability in sales of basic, mainstream staples and a decline in more indulgent 'treat' products and premium brands
- A reduction in sales of prepared foods and a return to cheaper home-cooking
- Above all, a massively increased focus on price and deals at the expense of all other drivers

But scratch a little beneath the surface, and it quickly becomes apparent that the pattern isn't quite this simple, and the impact on brands and market sectors isn't necessarily so clear. A number of paradoxes emerge;

- While there is considerable economic uncertainty, there is a simultaneous reduced level of reward for holding onto savings – with falling values in stocks, shares and property, interest levels rapidly approaching zero and all sorts of great deals and prices on offer, will we get better reward for spending now, rather than saving? And for those with the darkest of outlooks, might it not perversely be better to enjoy it while we can?
- While consumers and retailers are undoubtedly putting pressure on manufacturers to reduce their prices, the significant inflation rises that were experienced in 2008 on many raw materials, and on fuel and energy have now (mostly) waned, allowing a little more margin wriggle room for the food producers – they may be more able to reduce their prices
- The massive weakening of the pound will significantly impact on those manufacturers that rely upon imported materials, but will assist those whose goods or materials are produced on these shores and who face competition from 'foreign' brands. Add in the growing desire amongst consumers to 'buy British' whenever possible – frequently mentioned in the focus groups we've undertaken for a range of food Clients in the past six months, and covered in more detail below – and there are clear opportunities for 'home grown' brands and businesses
- Some food sectors are experiencing growth. Frozen food is probably the most quoted example, with the media reporting a 'return to the 1970's' as consumers flock to freezer cabinets again at the expense of the chilled fixture, and Dixons report chest freezer sales in 2008 increasing by 325%. Again, though, the drivers of this change are a little more complex than purely a pricing issue – there has been a corresponding 'educational' campaign driven by Birds Eye to encourage consumers to re-appraise the 'freshness' of frozen food, and we shouldn't underestimate the impact of 'Delia's Cheats' in promoting the convenience virtues of a range of frozen products. Youngs have also been promoting their frozen salmon as a simple way to deliver great tasting food using all the signals you might expect from the best chilled range – frozen food can deliver on flavour too
- Within every threat there also lies an opportunity. Our recent qualitative research has uncovered plenty of evidence of a 'trickle down' effect in meal consumption – as people are visiting restaurants less often, then they compensate by buying more takeaways; while

they are reducing take-away spend, they buy more 'premium' ready meals instead (Marks & Spencer 'Dine for £10' is the prime example); if they are limiting the amount of 'premium' ready meals they buy, then more mainstream variants are being picked up instead (Italian ready meals and fresh pasta/pasta sauce have reaped the benefits)

Impact on food shopping habits

At a very basic level, we're all unwilling to completely give up on the lifestyle that we've been 'educated' to expect, and feel entitled to. Through a combination of our media consumption, our growing exposure to a wide range of cuisines – whether through overseas travel, or more out-of-home eating – and the variety of foods offered within the supermarkets we've become a much more 'foodie' nation. We've been encouraged to enjoy our food, not to just view it as fuel, and that's a habit that will be hard to break.

So, as we find ourselves with less to spend, our food spending is likely to become more polarised. There has been plenty of evidence over the past decade that the brands that have done well are those at either end of the spectrum – the ones that offer either simple great value, or those with distinct, premium, indulgent qualities. It's the indistinct mainstream in the middle that has been squeezed.

That squeeze is likely to get more pronounced during the recession. Mainstream, mass brands will find themselves forced in one direction or the other – become more competitive on price, or re-position (or re-engineer) themselves to move up the scale.

From a consumer perspective, the shopping trolley can almost be divided into two sections – 'bargains' and 'treats'. The 'bargain' part is inevitably the bigger of the two, and contains those staples that form the bedrock of our daily diets. Essentially, it's about finding necessities at the best possible price.

Consumers are therefore increasingly searching out offers, deals and the best possible prices. And there is far more interrogation of prices and offers than would have been the case a year or two ago.

A frequent comment ringing out within food-related research groups is "I never used to worry much about the price of things, but I find myself looking at them now". A red sticker with a '2 for £5' offer would have simply been assumed to offer good value in the past – now consumers will seek out the RSP of the products to make sure that the saving is significant.

Our research has also shown that many are broadening their shopping habits and their preparedness to explore a broader range of

retailers. There is a general perception that all major supermarkets have recognised their duty to provide food that meets basic quality standards, and that has helped to break some shoppers' habitual regression to just visit their most local store. Aldi has been the most prominent beneficiary of this (helped, no doubt, by well-targeted promotions and advertising), but any retailer can benefit if it is perceived to be offering real value.

The 'treat' part of the trolley may have been reduced a little in quantity, but there is likely to be an even greater attention on quality. In troubled times food can be one of the simplest, but most necessary of pleasures, and if it has to be a little less frequent then you're going to make doubly sure that it will be something you will enjoy. So, whether it's a weekend main meal, a bottle of wine, or just a sweet treat to accompany a mid-morning coffee, it can represent the brief moment of joy in an otherwise fairly bleak day – the product will have to deliver real treat values.

2. How The Recession Has Impacted The 'New Food Drivers'

So, how does all of this impact on the 'New Food Drivers'? Let's examine them in turn;

'Virtuous'

'Virtuous' is about feeling better about the food we buy, in every sense – it embraces a whole range of characteristics, from organic to Fair Trade to functional to socially responsible. Over the past decade, the relative significance and influence of each of these component elements has ebbed and flowed, following the level of media attention they have captured, and, perhaps, their novelty.

The creeping influence of the recession has coincided with an increasing focus on locally-sourced products. This driver emerged during 2007 from a heightened awareness of the 'road miles' and carbon footprint associated with the production and delivery of food – instead of Fair Trade produce air-freighted from far flung points of the globe, or organic milk or fish transported the length of the country we were encouraged to look out for goods farmed or made much closer to home.

The retailers have been influential too, introducing and flagging up local produce in stores (milk, for example), and the Co-op has led the way in stressing the supermarket's role as a champion of the local community.

So while the other aspects of 'Virtuousness' may have been (temporarily) put back on the shelf, we are likely to see a growth in products, and importantly, brands that demonstrate clear British or local/regional credentials. Ginsters has just re-launched its sandwich range and is

playing heavily on the British provenance of its chicken, ham, bacon, cheese and eggs.

A note of caution though – simply plastering a Union Jack across a pack will not work with today's consumer. There is much closer examination of the real source of ingredients and the veracity of 'brand stories' than would have been the case in the past. 'Local' needs to really mean local if it is to stand up against such scrutiny.

'Crafted'

'Crafted' is all about those products that are (or appear to have been) produced in a more natural manner by people who actively care about the food that they are selling – it's the antidote to faceless, bland, mass-produced food that focuses upon volume and efficiency of process at the expense of taste. And again, the sense of 'supporting our own' through difficult times will enhance the appeal of 'Crafted' brands.

If the inevitable price-premium that 'Crafted' products will demand is likely to be an issue during a recession, then it should be at least partly off-set by the benefits of supporting goods that have a 'made with care' appeal. 'Crafted' brands don't necessarily have to have been made in a local mill, bakery or kitchen, but they will evoke these values, and that's far more appealing to consumers who like to support the 'little guy' who offers a more palatable alternative to big, greedy corporations.

Simple products, packaged and presented in a simple fashion will also reflect the desire for less wastage and flamboyance during these tougher times.

A New 'New Food Driver'

'Crafted' and 'Virtuous' were always closely related, and they are likely to become even closer bedfellows through the recession, potentially complementing each other to deliver a rounded, compelling proposition that can underpin food brands that want to appeal on taste and quality, rather than be drawn into the price war. But there's also something else emerging, that feeds from these two areas, but adds a further, more emotive force.

The pressures on the economy have led to a surge in consumers seeking to buy products that they believe will support local farmers and British jobs. There is a growing sense that we need to 'batten down the hatches' – almost as though we have returned to the post-war 1940's when the 'Dunkirk spirit' was applied to re-building the economy.

Out of this has grown a new driver that can best be expressed as 'Homely'.

'Homely' is about the comfort that we get from returning to our roots. It's especially relevant in troubled economic times, and it goes a lot

further than just encouraging us to 'support our boys' – it is also driving many consumers to reign in their willingness to experiment with new brands and ideas in favour of a return to more familiar old favourites. In uncertain times there is a natural human instinct to cling to the things we know and love best – they are comforting and safe and dependable.

So it's no surprise to see a brand like Heinz wholeheartedly embracing the nostalgia of its iconic advertising heritage. One of the brand's great strengths is its association with our formative years – playing on the 'Homely' values that come from the strong place it holds in our warm, early memories makes a whole lot of sense today.

For other well-established brands this should be good news, provided that they can harness the values that helped them build their stature in the first place, but in a way that still connects with today's consumers.

And it might also help some of those old iconic brand names of our youth that have fallen a little to the wayside – 'back of cupboard, back of mind' – to revive themselves and to recapture some of their lost market share.

It means that market sectors that have associations with 'Homely' qualities should stand to benefit – home-baking products for example. It is also likely that products that offer simple 'Homely' pleasures will do well – those little, regular indulgences that offer us comfort that represents 'escape' from harsh reality. Confectionery, savoury snacks, sweet treats and alcohol may all see the benefits. There is already evidence that doughnut sales have been increasing dramatically in recent months – these are basic, inexpensive, 'Homely' treats that we know and love.

For new brands it means that there should be benefits in tapping into 'Homely' values – familiar, 'safe' cues that imply an understanding of the worth that we place on our homes, our families, our communities and our nation.

'Tailored'

'Tailored' is the driver that reflects the increasing choice and 'personalisation' that consumers both experience and demand across a range of markets – most evident in the media world (how many tv channels can we now access?) and driven by the exponential growth of the internet, it has also become evident in a range of food and drink sectors, from tea-bags to cooking oils.

Much of the expansion of choice that has been evident in the past few years within the supermarkets has been driven by more premium, 'treat' brands – the top shelf of many fixtures has welcomed in a selection of more esoteric 'super-premium' products that are not

designed to appeal to the masses, but which offer greater choice and more interesting taste experiences to consumers, and significantly higher margins to the retailers.

In recessionary times, these niche brands are likely to be the first victims, aren't they? Well, perhaps. In some sectors, where the overall category sales are in decline and the retailer wants or needs to cut back on fixture space then the more marginal brands are going to face difficulty. Asda announced in February 2009 that they are to remove brands that they believe are "cluttering" the fixture, and that don't offer any distinctive proposition.

But in many sectors the smaller brands are likely to remain, as choice at the top end of the fixture – the best quality, best tasting and most indulgent products – is more relevant and necessary than at the economy end, or indeed within the mainstream where it's harder to justify more than a brand leader, the inevitable own label and one or two differentiated competitors.

Choice is no less important to consumers when the economy is struggling – in fact, it could be argued that choice becomes even more important. We're going to be increasingly careful to make sure that our discretionary spending meets our needs as precisely as possible. Brands that operate in this area are all about appealing strongly, and therefore commanding loyalty amongst a small minority, rather than simply competing on price. As long as the metrics continue to work for the retailer, the 'top shelf' should continue to survive.

So, being 'Tailored' is still going to be highly relevant, and a key driver to enable the delivery of a price premium. Indeed, being very precisely 'Tailored' – having a clear, distinctive proposition that will have particularly strong appeal to a (reasonably significant) minority will represent the best way for a new brand to secure a place on the retailers' shelves in the first place.

And if it also displays 'Virtuous' and 'Crafted' characteristics, or can evoke 'Homely' qualities, then so much the better.

3. Implications for the future – recovering from recession

Seeds Of Hope

The business world hasn't stopped. Some companies are still expanding. Asda recently announced in 2009 that they will be creating 7,000 new jobs as a result of new store openings and store expansions. BSkyB is creating 1000 new posts to help deliver its burgeoning services, and Subway are planning to open 600 new stores (a bold indicator that there is still plenty of demand for out-of-

home food, albeit at the cheaper end of the market) with another 7,000 jobs arising as a consequence.

Of course, these rays of hope shine out amongst a gloomy backdrop still dominated by tales of significant job losses as many companies cut back or disappear completely. Nevertheless, they do indicate that business will go on, and that those strong enough to build for the future are in a position to strengthen their grip on their markets.

New products also continue to be launched, and, interestingly, many of those that found their way onto the pages of *The Grocer* in early 2009 targeted the premium, more indulgent sectors. Walkers launched Red Sky, their 'poshest ever crisp' in February at a significant price premium to all other crisp brands. At the same time Haagen-Dazs announced a range of 'Smoothies' made from a combination of fruit sorbet and ice cream into the luxury end of the frozen desserts sector. Heinz is introducing a new Premium Pickles range and Tropicana has launched a 'Gold Label' super-premium juice range.

These are products 'Tailored' to meet the needs of a niche audience that still has the desire and ability to pay a bit more for real quality. Consequently, the yield they will deliver to the retailer for the shelf frontage they occupy on the fixture will be highly attractive. Margin will, in all probability, be more significant than volume sales.

At a macro level there are other signs of hope. Barack Obama entered the White House with a clear proposition – 'Change we need'. And change is what is required, and 'Yes we can' is an apt mantra of new hope for a world that needs to believe in its future again.

The financial markets have been revealed to be far more fragile animals than we ever thought them to be. They are driven as much by a sense of confidence in the unknown future as they are by the daily reportage of company performance and profits.

Closer to home there is another beacon glimmering on the horizon. The Olympics are coming to London in 2012, and while there are still voices that decry the cost of staging the spectacle it is hard to deny that it will represent a powerful focus both for investment (in infrastructure, and services, and attendant merchandise, broadcasting and events) and for a renewed sense of pride in the nation.

There will be countless commercial opportunities arising either directly from the coming of the Games ("Olympics barbecue, anyone?") or more tangentially through the long build up. The prospects for sales of alcohol, crisps, snacks and burgers around this celebration of physical performance look perversely strong.

The 2012 Olympics will be upon us before we know it. Like a child looking forward to Christmas, much energy will be invested in the anticipation and the countdown as we get ready for our big show. It will give the whole nation the opportunity to celebrate its heritage, to puff its chest out with pride, and to look positively towards the future (and, no doubt, to sell a few t-shirts...).

The Olympics can be seen as another powerful catalyst for the new 'Homely' driver, encouraging us to celebrate our roots, fuelling patriotic fervour and parochial interest. It also provides an opportunity for us to look forward positively at a time when it sometimes feels difficult to see how we're going to get through the next few days.

Because looking forward is what we now need to do...

Opening new doors

There is little doubt that any responsible business will be paying close attention to its cost base at present – cutting back on all unnecessary costs will be an inevitable focus. No stone will be unturned – if businesses want to survive, then they will need to make sure they are run as efficiently as possible. By the time the first shoots of economic hope appear the survivors should therefore be lean and fit.

And then...?

Businesses can grow their bottom line in one of two ways – they can cut costs, or they can increase sales and/or margins. Cost-cutting isn't likely to be an option, as it will have been exhausted, so we will all need to focus on growth.

Innovation will be vital in this respect, and yet investment in speculative new projects with uncertain returns doesn't sound particularly appealing during a recession, does it? R&D and NPD are some of those discretionary budget lines that can easily fall victim to the accountant's sword.

Yet the opposite should be the case – there is no better time to invest (responsibly and carefully, of course) in seeking out new innovation. The post-recessionary marketplace is likely to be less crowded than the world we remember from early 2008 as a range of weaker players (and some who were just plain unlucky) have been forced to the wayside. There will be more room on the shelves, but also a hunger for bright new ideas and offerings.

However, it takes time to uncover relevant, appealing new product and brand ideas, and even more time to ensure that they are brought to market in the best possible shape.

So the time to open these new doors is now, because innovation should not be treated as a cost. It is a valuable investment, and when the

recession does end (whenever that will be) it will be innovation that will be the real driver of economic recovery.

Recovery shoots...?

So here are some ideas for innovation;

- If consumers are holding back on the amount they spend on out-of-home food and drink consumption, then there will be benefits for in-home 'dining experience' products, particularly those that provide the full meal 'kit'. M&S have shown the way with their 'Dine in for £10' promotion – why can't other brands create their own 'Dine In' proposition that reflect all manner of restaurant cuisines? First prize to whoever manages to properly replicate fish and chips as a ready meal...
- The human curiosity to try something new will not slow down, even if manufacturers and retailers are becoming more cautious about introducing new, marginal lines. So there is a role for more 'Seasonal Specials' and 'Limited Editions' – new variants that are initially stocked for a discreet period, but that can be retained as core lines if they prove popular. Walkers' well-publicised 'New Flavour' campaign is the most prominent example, while New Covent Garden have long used their 'Soup of the Month' approach to expose new recipe ideas
- While the pub trade has suffered as we spend more time entertaining ourselves at home (with wide-screen televisions and a vast range of channels and DVDs to choose from, why go out...?) so the demand for drink and snacks for in-home consumption has grown. Products and brands that can capture the best of the pub experience stand to do well in the future
- A hot drink and 10 minutes of peace and quiet represents an 'oasis' in the most hectic of days. It's your time, and you want to enjoy it to the full, so it's an appropriate moment to indulge a little. Sweet treats that perfectly complement a cuppa should continue to thrive – think of bakery products, biscuits and chocolate, shaped and presented to fit the mood

• Nostalgia can be a powerful driver. The fashion industry has long relied on reviving styles from previous eras (even those that aren't too long past) and Disney has carefully recycled many of its key properties for each fresh new generation, so why can't food and drink brands do so too? Marks & Spencer recently introduced a range of 'British Classic' sandwiches and salads that deliberately echo the halcyon pre-Coronation Chicken days of the 1960's and 70's. What other iconic British recipes and brands could enjoy a similar revival? Jam, pies, cheese and beer all feel as though they could benefit from a dollop of carefully applied nostalgia

These are just a few 'first thoughts' that are intended to provoke debate and stimulate minds. Naturally, we'd be delighted to develop more tailored ideas to address any business issues or opportunities that you are considering at the moment

So, if you'd like us to apply our minds and our thinking to your market sector, please feel free to give us a call on 0113 234 6220